FY 2002 SYSTEMIC WEAKNESSES

(Tab C)

FINANCIAL MANAGEMENT SYSTEMS AND PROCESSES

Department of Defense (DoD) financial management systems and business processes do not provide information that is accurate, reliable, and timely. As a result of these deficiencies, effective management decision-making is hindered. The absence of an overarching approach to financial management--the current financial environment is comprised of many discrete systems characterized by poor integration and minimal data standardization--also has resulted in a consistent failure by the Department to pass financial audits.

Impact

An inferior financial management information infrastructure hinders the efficiency and the effectiveness of the Department's operations and prevents managers from making more timely and cost-effective decisions. The Department's substandard financial management processes and information infrastructure also contributes to the following difficulties:

- Absence of a Department-wide, integrated approach to financial management.

- Overly complex data requirements that are driven by appropriation funding rules, elaborate policies and procedures, and outdated guidelines for excessively detailed tracking of expenditures.

- Convoluted business processes that fail to streamline excessive process steps that are further complicated by aged and disparate systems (accounting, financial, and feeder).

- Inability to meet evolving federal financial management standards.

- Difficulty in obtaining financially based, outcome-oriented, metrics for decisionmakers. Many of the metrics currently in use reflect annual goals and outputs with tenuous links between financial management and departmental goals.

- Inability to produce annual financial statements that successfully pass financial audits without the use of qualifications.

- Personnel who lack the technical and financial skills necessary to support and maintain integrated financial management systems and operations.

Management Response

The Department is engaged a number of wide-ranging initiatives to improve its financial management processes, systems, and information.

- The Secretary of Defense established the Financial Management Modernization Program to direct and oversee financial management reform within the Department. A new directorate within the Office of the Under Secretary of Defense (Comptroller) was created to lead the reform effort. Its main task is to develop a financial management enterprise architecture. That architecture will serve as a blueprint for a coordinated DoD-wide management approach to improving business processes and implementing integrated financial management systems.

- In April 2002 the Department awarded a major contract for development of the Department-wide financial management enterprise architecture.

- The Under Secretary of Defense (Comptroller) has created a review process utilizing strict criteria designed to manage and control all investments in DoD financial management systems. This process will prevent further deviation from the goal of transitioning to the Defense-wide enterprise architecture as swiftly as possible.

Planned Actions

- Complete development of the financial management enterprise architecture and transition plan by April 2003.

- Reengineer the Department's financially related business processes to ensure routine availability of reliable, accurate, and timely financial management information.

- Develop a capital investment strategy and investment plan that includes costs, people, policies, processes, and systems for the Department's transition to a fully integrated "world class" financial management system that is compliant with applicable federal and DoD standards.

- Fashion an information architecture that supports shared financial management data across the Department, with the following characteristics:

    -- The ability to collect data by specific project, business line or weapon system life cycle cost, that will allow DoD managers to compare financial management and cost management information with the Department's performance goals and metrics.

    -- An architectural and transition plan that will guide the development and deployment of new financial management capabilities, with a concurrent reduction in the costs of such development.

    -- Incorporates the goals of the Government Paperwork Elimination Act.

    -- Includes all current and planned financial management systems and the financial portions of DoD business (feeder) systems, including any business systems in which the transactional effects of financial events are recorded.

ENVIRONMENTAL LIABILITY

At the request of the House Committee on the Budget, the General Accounting Office (GAO) conducted an audit of the Department's progress in estimating the potential long-term budgetary implications associated with environmental clean-up costs related to the "ongoing operations" of the Department. Ongoing operations are those day-to-day operations that may require cleanup activities if or when they are shut down. Examples include landfills, underground storage tanks, and hazardous waste storage facilities. The GAO determined that the Department has not yet developed the policies, procedures, and methods needed to ensure that cleanup costs (environmental liabilities) for all of its ongoing and inactive or closed operations are identified, consistently estimated, and appropriately reported.

Impact

The Department's financial statements and environmental reports under-report environmental liabilities and understate the Department's related long-term budgetary requirements for clean-up activities.

Management Response

Efforts during the past year have focused on providing guidance that will help the DoD Components to compile complete, accurate, and fully substantiated environmental liability data. Emphasis is being placed on recognizing what constitutes a reportable environmental liability, how such a liability should be measured, and when and where it should be recorded. Commercial sector accounting guidance is being used to the maximum degree feasible. Specific progress includes:

- Prepared revisions to the Department of Defense Financial Management Regulation ("DoDFMR"), Volume 4, Chapter 13, "Environmental and Nonenvironmental Liabilities" and Chapter 14, "Accrued Defense Environmental Restoration Program Liabilities."

- Published updated Defense Environmental Restoration Program (DERP) management guidance.

- Validated the Remedial Action Cost Engineering and Requirements (RACER) cost estimating model.

- DoD Components are developing and maintaining adequate supporting documentation and audit trails for their DERP cost-to-complete estimates.

- DoD Components are developing the required inventory of nonoperational range sites.

- The Department is on track to achieve auditable data in the DERP by October 2004.

Planned Actions

- Publish additional guidance to enable DoD installation personnel to determine when the potential exists for an environmental liability. If there is an environmental liability, the guidance will standardize how cleanup cost estimates are developed and categorized. The target completion date is May 2003.

- Complete inventory of non-DERP activities by August 2004.

- Assess progress made by the Department in reporting complete, accurate, and supported environmental liability data during the review of the FY 2002 DoD financial statements.

MUNITIONS AND EXPLOSIVES

In 1999, the Department of Defense identified a material weakness in the management of munitions and explosives at operational test and training range complexes, and on munitions response areas (formerly used areas not on operational ranges). Ensuring sustainable use of operational ranges is essential to the Department's ability--now and in the future--to fulfill its mission. Increasing urban encroachment, along with regulatory and public interest pressures, threaten continued use of operational ranges. This requires more intense management of unexploded ordnance and munitions constituents on operational ranges, to ensure protection of human health and safety. For munitions response areas, the Department is required to respond to unexploded ordnance (and buried and abandoned munitions), in a manner that protects human health and the environment. Furthermore, the General Accounting Office has determined that the Department's training range cleanup cost estimates are understated, and identified the need for accurate inventories and cost methodologies to accurately substantiate the related financial liabilities.

Impact

The Department's financial statements and environmental reports do not adequately identify financial liabilities caused by munitions use. As a result, the Department's related long-term budgetary requirements to adequately manage unexploded ordnance on operational ranges and respond to munitions related problems on munitions response areas are potentially understated.

Management Response

The Department is developing management procedures to address munitions and explosives issues on both operational ranges and munitions response areas. Progress achieved to date includes:

- Validated the Remedial Action Cost Engineering and Requirements (RACER) cost estimating model.

- Updated the Defense Environmental Restoration Program (DERP) management guidance to include policy for munitions response actions funded by the DERP accounts.

- Established the Sustainable Defense Readiness and Ranges Integrated Product Team to address operational test and training range management.

- Approved the Munitions Action Plan (MAP) developed by the Operational and Environmental Executive Steering Committee for Munitions. The MAP serves as a "roadmap" for action across the entire life cycle of munitions.

- Provided guidance to the DoD Components to determine financial liabilities and identify budget requirements for environmental management tasks on operational ranges and appropriate remedial actions for munitions response areas.

Planned Actions

- Ensure that the DoD Components have an initial operational range and munitions response area/site inventory by January 2003.

- Publish Department directives for munitions response, operational range management, and disposal of range residue by January 2003.

- Submit the congressionally required report on unexploded ordnance by April 2003.

- Publish an initial mission response area/site inventory, available to the public, by May 2003.

- Publish Department instructions supporting directives on munitions response and operational range management by June 2003.

- Update the "DoDFMR" financial guidance for operational ranges and munitions response areas by July 2003.

- Assess progress made by the DoD Components in reporting complete, accurate, and supported environmental liability and budget data during joint review of the FY 2003 financial statements by August 2003.

- Complete a comprehensive inventory of operational ranges and munitions response areas by April 2004.

- Determine whether the progress made by the DoD Components in reporting complete, accurate, and supported environmental liability and budget data resolves this material weakness by August 2004.

CONTRACTING FOR SERVICES

Numerous Office of Inspector General, Department of Defense (OIG, DoD) reports identified that various pre and post contract award issues are not being adequately addressed for the procurement for services within the Department.

Impact

Lack of adequate acquisition oversight to ensure that appropriate planning and procedures are being followed may result in less than optimal utilization of resources when contracting for DoD services. Unlike the major acquisition system process, service contracts do not always receive the same degree of rigorous review both prior to contract award and during contract execution. The growing size and complexity of DoD service contracts makes it imperative that greater discipline be consistently applied to the review of those procurements. The most direct, potential impact of lax oversight is failure to obtain the best value on individual procurements, specifically when all of the available competitive pricing opportunities are not properly considered.

Management Response

The Under Secretary of Defense for Acquisition, Technology and Logistics (USD(AT&L)) has issued new DoD-wide policy governing the management and oversight of the acquisition of services. An acquisition strategy must now be developed and approved for each acquisition of services, and funding actions as well as business arrangements must be executed in accordance with that approved strategy. Metrics for cost, schedule and performance also must be established for each service acquisition. Those metrics will then be forwarded to the appropriate Decision Authority to assess execution progress.

Planned Actions

Future corrective actions include:

- The Office of the Under Secretary of Defense for Acquisition, Technology and Logistics (OUSD(AT&L) will review DoD Component implementation of the new policy governing oversight of service contracts by March 2003.

- Revise the Defense Federal Acquisition Regulation Supplement (DFARS) to implement Section 803 of the FY 2002 Defense Authorization Act (Public Law 107-107), which requires competition in the purchase of services greater than $100,000 under multiple award contracts (multiple award schedule program under the General Services Administration and multiple award indefinite quantity (task and delivery) order contracts by October 2003).

- Increase awareness of service contracting issues and oversight procedures through a variety of acquisition training forums, including the 2003 Department of Defense Procurement Conference

GOVERNMENT CARD PROGRAM MANAGEMENT

PURCHASE CARDS

Audit reports provide evidence of failures of the internal control systems designed to mitigate the risk of abuse or misuse of government charge cards within the Department. The audits revealed incidences of misuse, abuse, and fraud that are caused by inadequate DoD activity level emphasis on proper use of the purchase card, poorly enforced controls and lax oversight.

Impact

Lack of DoD activity level emphasis and failure to fully implement management controls produces an environment where the risks of charge card abuse, misuse, and fraud are not mitigated. Lax enforcement of management controls removes the oversight necessary to ensure the cost-effective and appropriate use of this flexible procurement tool. Such breakdowns may result in situations in which cardholders procure items that are not required for mission support, or that are intended for their personal use. Failure of management controls also undermines the ability of the Government to seek adjustments for billing errors or fraudulent purchases that were not made by the cardholder.

A strong internal control system that verifies that established card management policies and procedures are being followed is necessary to reduce these risks. Such controls are most effectively applied at the local DoD activity level, wherein direct supervisory oversight is maintained. DoD Component and Major Command emphasis also is necessary to ensure that the proper climate of responsible card use and oversight is established and maintained, and that appropriate resources are devoted to program management at the local activity level.

Management Response

The Deputy Secretary of Defense issued a memorandum to all DoD Components emphasizing the requirement to maintain appropriate stewardship of taxpayer dollars when using the government purchase card. The OUSD(AT&L) is developing an overarching directive governing purchase card roles and responsibilities within the Department. Specific improvements in management controls include the following:

- Established a method to ensure that purchase cards are collected from all departing civilians and military members prior to separation.

- Prepared and disseminated throughout the Department a concept of operations guide for the implementation, maintenance, and oversight of the purchase card program. This effort included a thorough review of those policies and regulations intended to establish effective management controls for the program.

- Completed a field test of an enhanced, centralized data mining tool to assist in the detection of fraudulent, wasteful, and abusive purchase card transactions.

Planned Actions

Future corrective actions include:

- Develop and field enhanced training materials for cardholders and their responsible oversight officials. This is an ongoing activity.

- Accelerate the use of on-line billing statement review, approval and certification by the second quarter of FY 2003.

- Increase awareness of proper purchase care use through a variety of existing training forums, including a session of the 2003 DoD Procurement Conference.

TRAVEL CARDS

The principal problem with the DoD Individually Billed Account (IBA) travel charge card program is the late payment or nonpayment by military members and civilian personnel of travel charge card debt due to the bank. Under the contract with the travel charge card contractor, cardholders are required to pay off the total balance on their account within 30 days of the end of the billing cycle to keep the account current. The General Services Administration standard delinquency rate is calculated on balances unpaid after 60 days. Using this measure, the Department's performance during the first three years of the program has been poor. Monthly delinquency rates during this period have been as high as 25 percent. Performance has been progressively improving, but the rates during FY 2001 and the first two quarters of FY 2002 were 50-90 percent higher than the average of other federal agencies.

When an account is delinquent more than 210 days, the travel charge card contractor is required by banking laws to write-off the overdue balance. Through FY 2001, the amount of write-offs for individual travel charge card debt was excessive, averaging $1.7 million per month. The write-off problem has been largely corrected by the introduction of salary offset in October 2001. The average monthly write-off has been reduced to $300 thousand. Prior to this time, the bank's only recourse was to attempt recovery through private debt collection means. With salary offset, the contractor can request that the government recover the debt from the individuals' pay.

There are also documented instances of inappropriate use of travel charge cards. Travel charge cards are to be used only for expenses incurred in connection with official government travel. Unofficial use subjects the travel charge card program to greater risk of delinquencies and write-offs because the charges will not be reimbursed to the cardholder by the government.

Impact

High delinquency rates and excessive write-offs have two important consequences. First, they threaten the Department's contractual relationship with the travel charge card contractor. Since the contractor cannot charge interest on outstanding balances, and since the late payment fee is charged at a later point than on a consumer credit card, the contractor's cost of funds will be higher than anticipated. While this is of primary concern to the card-issuing bank, it also could be problematic to the Department in future competitive solicitations for card services resulting in increased fees to cardholders and increased costs to the Department to reimburse the fees.

Management Response

In April 2001, a contract modification was approved to encourage DoD members to pay their travel charge card bills in a more timely manner and reduce the financial risk of the travel charge card contractor. The Under Secretary of Defense (Comptroller) (USD(C)) issued a memorandum implementing policy changes resulting from the contract modification. These included:

- Increased fees charged by the contractor for automated teller machine withdrawals, late payments and returned checks.

- Implemented salary offset for delinquent amounts beginning in October 2001.

- Reduced travel charge card credit limits by one-half.

- Reduced the number of active cards issued to infrequent travelers. From November – December 2001 the DoD Components reviewed cards held by infrequent travelers (those making two or fewer trips in a year). This resulted in the cancellation of 115,000 cards and the deactivation of 112,000 cards.

- Established Charge Card Task Force (March 2002) to investigate program improvements to both the purchase Card and Travel Card Programs. The Task Force members consist of representatives from the Military Departments, GSA, Office of Personnel Management and Department of Justice. The USD(C) released the DoD Charge Card Task Force Report on June 27, 2002. Recommendations of the Task Force that have been implemented include:

    -- Cancellation of approximately 400,000 inactive travel charge card accounts.

    -- Redefined mission critical status to require specific supervisory approval on the travel authorization in circumstances where individual cannot submit travel vouchers. Mission critical status delays suspension of cards for nonpayment and allows reimbursement for late fees. The revised definition prevents misuse of mission critical status to postpone payment of charge card bills.

    -- The Service Secretaries and Component Heads were tasked to review their travel and purchase card programs and report on actions being taken to reduce delinquencies and address misuse.

Planned Actions

All of the following recommendations of the Charge Card Task Force for the travel card program that will be implemented by the Department in FY 2003:

- Ensure that supervisors and security managers are informed of allegations of travel card misuse and abuse so that an appropriate determination can be made regarding suspension of security clearances.

- Develop overarching directive on travel card roles and responsibilities within the Department.

- Develop methods to ensure government purchase and travel cards are collected from all departing civilians and military members.

- Develop centralized data mining tool to detect travel charge card abuse and misuse.

- Develop enhanced card program metrics for senior management oversight.

- Support legislative change proposal to mandate split disbursement for all travel claim reimbursements.

- Support legislative change proposal to expand the application of salary offset to civilian retirees.

- Investigate travel voucher processes to identify improvements to reduce the time required to obtain reimbursement.

- Evaluate alternatives to the travel charge card, such as debit cards and stored value cards.

- Implement an exemption from mandatory use of card for travel incident to certain deployments/missions that are likely to result in untimely settlement of travel vouchers.

- Evaluate potential for the Defense Travel System (DTS) to incorporate control mechanisms such as automatic activation/deactivation of travel charge cards coincident with the beginning and end of official travel.

- Revise compliance sections of regulations to clarify procedures to be utilized for travel charge card misuse and abuse; and increase awareness of training material available from the travel charge card contractor and the GSA.

INFORMATION ASSURANCE

The Office of the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) (OASD(C3I)) has determined that the Department's information systems are potentially vulnerable to an information warfare attack. The Department has uncovered numerous attempts to breach "sensitive but unclassified" systems and

networks supporting finance, logistics, medical, procurement, personnel and research and development activities. The widespread use of sophisticated viruses and more sophisticated "distributed denial of service" attacks will continue to challenge the Department. Assessments by OASD(C3I) and audits by the OIG, DoD continue to show that security certification and accreditation of individual information and computing systems and applications within the Department is not adequate. Failure to comply with accreditation requirements, or maintain this accreditation, leaves many systems vulnerable to attack or exploitation.

Impact

Information assurance is a critical readiness issue. Successful attack on DoD systems would have serious and immediate impact on the ability of the DoD to carry out its mission.

Management Response

- Issued DoD directive and instruction on Computer Network Defense establishing policy, responsibilities, and organization for computer network defense.

- Assigned a military lead (currently United States Space Command) for Computer Network Defense within the Department.

- Removed information from the Department's websites that may have revealed operational capabilities or vulnerabilities.

- Implemented the Information Assurance Vulnerability Alert (IAVA) process to alert units to security vulnerabilities and to manage their correction.

- Subjected all DoD business processes to robust functional process improvements to include needed system protections. Mandated purchase of only commercial information assurance products approved by the National Information Assurance Partnership or the National Security Agency for national security systems.

- Deployed electronic tokens to secure access among all DoD system users and organizations and issued secure electronic authentication certificates (to validate user identity) to all DoD users so that electronic mail is protected by digital signature.

- Published information assurance readiness metrics and reporting policy to continually assess the readiness posture of DoD Components.

- Established the Information Assurance Scholarship Program to provide increased professional education and training opportunities for DoD personnel as well as improving the Department's ability to recruit trained information assurance professionals directly from college.

- Established a connection approval process for classified and unclassified networks to validate the security of subnetworks as a condition of connection.

Planned Actions

- Complete revision of overarching information assurance policy by the first quarter 2002.

- Revise DoD security certification and accreditation policy and process to improve compliance and provide enterprise management capability by September 2003.

- Complete deployment of DoD Public Key Infrastructure and issue of electronic tokens (via the Common Access Card) to entire DoD population by October 2003.

- Complete enterprise-wide certification standards for information assurance/technology professionals to raise and continuously improve existing skills by May 2003.

- Develop an information assurance/technology workforce management capability to identify and track personnel performing that function. This capability also may be used to ensure that those professionals are suitably trained and certified. The target completion date for the Civilian Personnel Data System improvements is June 2003, and for military databases, June 2004.

- Develop an enterprise-wide strategy to infuse, and continually enhance, information assurance awareness and training into programs for all end users by June 2004.

- Deploy commercial software security product(s) designed to eliminate vulnerabilities introduced through standard default installations by September 2003.

PERSONNEL SECURITY INVESTIGATIONS PROGRAM

Personnel security investigations within the Department have not been conducted in a timely manner over the past several years, and recently, while timeliness is improving for new cases received after March 2002, the overall average investigative periods still do not meet required national standards. These investigations determine whether an individual should be granted access to classified information; accessed or retained in military service; or employed in a sensitive position.

Impact

The thoroughness and timeliness of personnel security investigations directly affects Department operations and is a matter of national security.

Management Response

Since 1999, the Defense Security Service (DSS) has implemented changes and enhancements to both hardware and software that significantly improved the Case Control Management System (CCMS) throughput, capabilities, and response time for both internal and non-DoD customers. These changes enabled DSS to close over

583,000 personnel security investigations in FY 2001, a 43 percent gain in productivity over FY 2000.

- Created the Office of Standards and Evaluation and Quality Management to evaluate the performance of Investigators, Case Analysts, and the written products they prepare.

- Published and disseminated a new Personnel Security Investigations Manual that provided much greater clarity concerning the required standards and procedures to use when conducting investigations.

- Reduced the number of closed investigations returned to DSS due to inadequacies in investigative coverage to approximately one percent, and reduced the total error rate to four percent (returned investigations and those corrected by the DoD central adjudicative facilities).

Planned Actions

DSS continues to establish new, improved methods to project workload and to ensure surges in requirements caused by unforeseen events such as the September 11, 2001, terrorist attack can be handled through implementation of a more agile workforce and increased support system automation. In 2003, a business process reengineering study will be completed to define more efficient, effective processes and methods to improve the speed and quality of the personnel security clearance process.

<u>MANAGEMENT OF REAL PROPERTY (FACILITIES)</u>

The Department lacks a long-range plan to address obsolescence and deterioration of its facilities and has related management issues with the Family Housing program, which supports military members and their families. Proper disposal, maintenance, upgrade, and replacement of DoD facilities is essential to the performance of the Department's mission, and is an key component of military and civilian morale.

Impact

The lack of a rigorous, analytically supported, criteria-based approach to support DoD infrastructure resource requirements results in decisions about facility acquisition, sustainment, recapitalization, and retention that are not optimal. Obsolete and excess facility infrastructure drains scarce resources from other facility requirements and creates potentially nonsupportable future year unfunded liabilities.

Management Response

- Published Defense Facilities Strategic Plan.

- Distributed FY 2002 funding increase to Military Departments to initiate facilities restoration program and eliminate $2 billion of the estimated $62 billion restoration requirement; set goal to achieve C-2 level of facilities readiness by FY 2010.

- Improved FY 2002 facilities recapitalization rate to 101 years (vice 192 years); set goal of 67 years by FY 2007 and reassessed methodologies for computing recapitalization rates.

- Increased FY 2003 facilities sustainment budget to 93 percent of commercial benchmarks (vice 89 percent in FY 2002); established goal of full sustainment levels by FY 2004.

- Initiated development of a Real Property Enterprise System.

- Resolved Military Department comments on draft policy for housing requirements process. Final policy will be submitted to the Deputy Secretary of Defense for approval in FY 2003.

Planned Actions

- Eliminate approximately 12 million excess and obsolete square feet from DoD facilities, bringing the cumulative FY 1998-2002 total to 75 million square feet (compared with the FY 2003 goal of 80 million square feet).

- Prepare housing requirements process guidance based on approved policy and complete coordination and implementation of directive ("DoD Housing Management") in FY 2003.